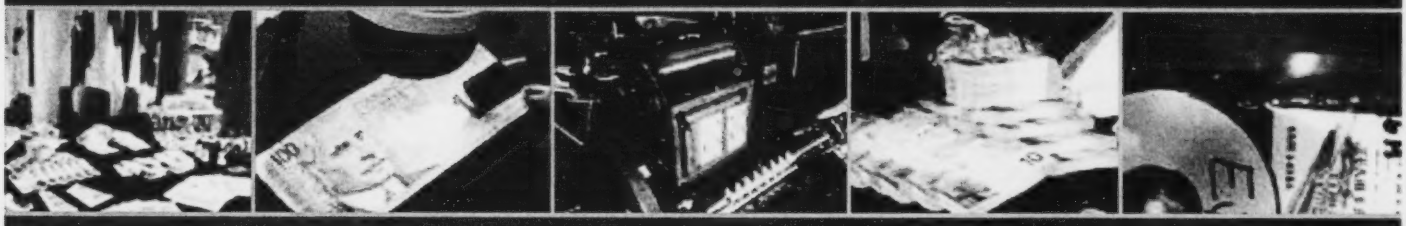
RCMP Criminal Intelligence

# Counterfeit Currency in Canada — December 2007



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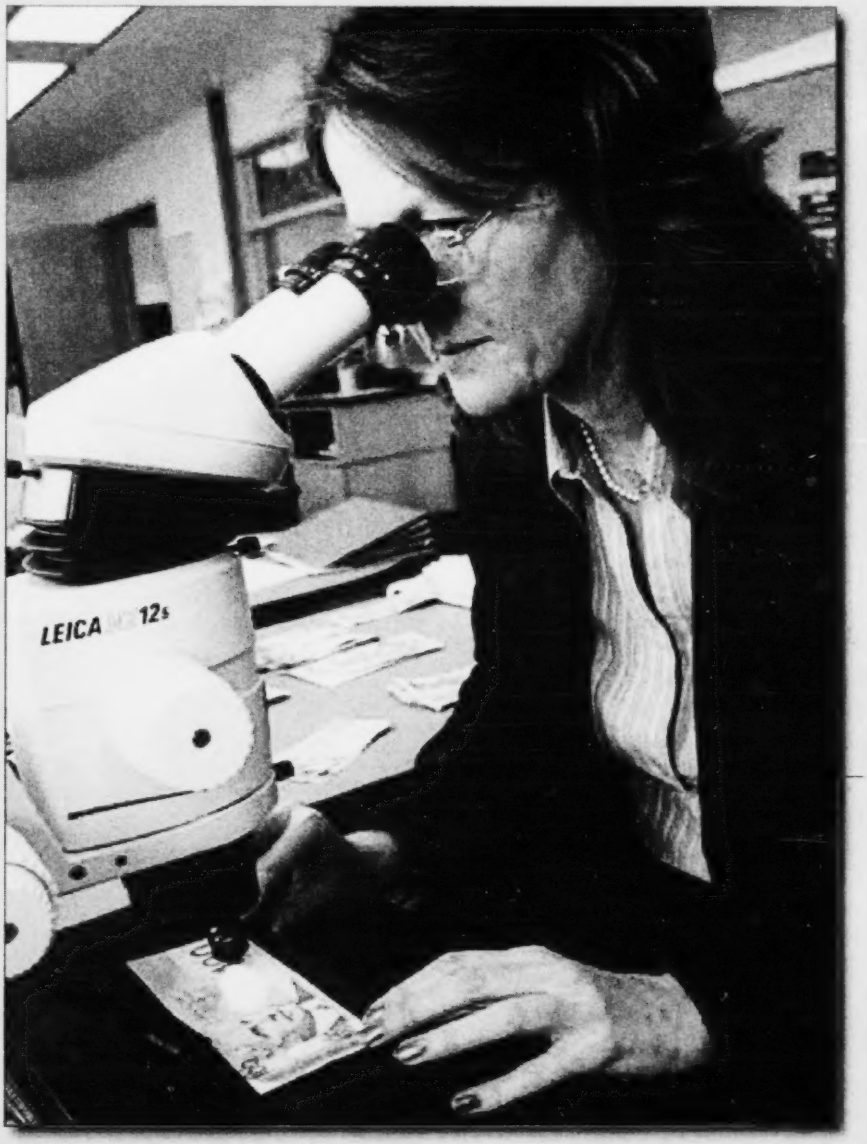
Canada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# EXECUTIVE SUMMARY

- This report is an assessment of the counterfeiting of Canadian currency, and includes a review of investigations from across the country over the last three years (2004-2007).
- The total face value of counterfeit currency passed and seized in 2006 was just over $4,000,000, down from approximately $13,000,000 at its peak in 2004.
- Much of the decline in counterfeit currency may be related to the introduction of a new series of Canadian banknotes bearing state-of-the-art security features, dedicated counterfeit enforcement teams and increased public/retailer awareness, as well as a relative boom in payment (credit and debit) card fraud.
- Counterfeiters tend to be involved in other criminal activities, such as identity fraud or drug offences. Many are repeat offenders for counterfeit crimes. It is possible that counterfeiters could adapt their expertise to forge identity documents, visas or passports should they be approached to do so. Counterfeiters may also become involved in terrorist financing.
- In 2006, Ontario accounted for 44% of counterfeiting activity in Canada, followed by Quebec (32%), the Pacific Region (16%), the North West Region (3-4%) and the Atlantic Region (less than 1%). The Greater Toronto, Montreal and Vancouver areas are the hubs for counterfeit currency activity.
- The predominant trend in the Pacific and North West Regions is for drug distributors and users, mostly methamphetamines or crack cocaine, to be making or selling counterfeit currency. Organized crime (OC) has a very weak link to counterfeiting in British Columbia and Quebec, while the OC ties to counterfeit currency crimes are stronger in Ontario.
- The vast majority of counterfeit banknotes in Canada are produced on inkjet printers. Counterfeiters in Canada tend to focus on the "Birds of Canada" series or the original "Canadian Journey" series of banknotes, as they have fewer security features and are relatively easy to reproduce.
- A new trend surfaced in September 2006, with high-quality counterfeit $1 and $2 coins hitting the market in Quebec.
- The RCMP has a National Counterfeit Enforcement Strategy (NCES), officially launched in 2007, which includes dedicated enforcement teams, Regional Coordinators, Divisional Coordinators and outside police forces in an integrated approach to combating counterfeit currency. Key to this Strategy is the Integrated Counterfeit Enforcement Teams (ICETs) in Montreal, Toronto and Vancouver. The NCES includes an active partnership with the Bank of Canada to assist in counterfeit prevention through the development and delivery of public/retailer education and awareness seminars.

# INTRODUCTION/BACKGROUND

This project was initiated as an assessment of the counterfeiting of Canadian currency. It includes a review of investigations over the past three years (2004-2007) that pertain to counterfeit currency and involve organized crime, significant public impact or financial loss, sophisticated schemes or new trends, and repeat offenders. All references to "counterfeiting" refer solely to currency counterfeiting unless otherwise noted.

This project reviewed investigations from across the country. The vast majority of information was collected from the Canadian police community, with other stakeholders such as the Bank of Canada and the private sector contributing valuable insight. The RCMP National Counterfeit Coordinator and all Regional Counterfeit Coordinators were interviewed for this assessment, and assistance was received from the Integrated Counterfeit Enforcement Teams (ICETs) and major municipal police forces.

While counterfeit banknotes tend to make up a very small percentage of all notes in circulation, criminals in Canada continue to find ways to replicate our currency despite the new banknote security features in place. The total value of passed[1] counterfeit currency was just over $4,000,000 in 2006. Canada is currently experiencing a higher concentration of counterfeit banknotes in circulation compared to the G10 countries who report their levels of counterfeit currency. The level of currency counterfeiting in Canada has dropped markedly since 2004, coinciding with the introduction of the "Canadian Journey (stripe)" series of banknotes. Canada's parts per million[2] declined from 470 in 2004 to 133 in July 2007.

The RCMP adopted "economic integrity" as a strategic priority for 2006-2007. Ensuring the value, stability and genuineness of the nation's currency is critical to the vitality of the economy, and counterfeit currency may degrade the confidence Canadians have in their banknotes. There is currently $46 billion worth of Canadian banknotes in circulation, and the most frequently used note is the $20 denomination. Cash remains the preferred method of payment for transactions under $25, and the second-most commonly used method of payment for transactions of $26-$100[3]. While victims of credit card fraud are usually protected from their financial loss by the issuer of their card, the Bank of Canada provides no such protection for someone who accepts a counterfeit banknote[4]. The losses suffered by the direct victims, consumers or retailers, can be substantial. These losses force businesses to increase their prices, which are ultimately paid by the consumer.

Counterfeit currency in Canada has traditionally been the domain of professional and so-called "hobbyist counterfeiters." Based on recent investigations, there appears to be a shift away from these "amateur" counterfeit operations towards a "professionalized" class of counterfeiters, sometimes involving organized crime syndicates.

1 A "passed" note is one that was successfully accepted as genuine at the point of sale, and involves a financial loss to a victim. A "seized" note is one that was captured or found before it was passed, either by law enforcement seizure or recognized by the cash handler.
2 Parts per million (PPM) is the measure of the number of counterfeit bills in circulation per one million legitimate banknotes in circulation.
3 Cash is the number one method of payment for transactions under $25 (63%), followed by debit cards (21%). Debit cards are most commonly used for transactions ranging from $26-$100 (39%), followed by cash (28%).
4 All central banks follow this policy of non-reimbursement, since providing such protection would be an incentive to increase currency counterfeiting.

# Technology and Methodology

The production methods and technology used in manufacturing counterfeit currency have evolved over the past few decades, from the traditional offset printing press to colour photocopiers to scanners and inkjet printers. Offset printers remain superior in terms of the detail, quality and fineness of the lines and graphics on a banknote, but less than 2% of the counterfeits passed and seized in Canada are produced this way. This method is capable of producing a large quantity of high-quality notes, but involves expensive technology and requires a highly specialized skill set to operate successfully.

Digital technology is supplanting and enhancing lithographic printing. Colour photocopiers have come a long way over the last decade in terms of their ability to more accurately reproduce banknote imagery with higher resolution. Less than 10% of counterfeits are produced by polychrome copiers[5]. Additionally, copiers require maintenance, and are a serious financial investment: a high-quality used colour copier retails for about $35,000. The most recent case of a counterfeiter using a colour copier is the $20 note that was manufactured in Longueuil, Quebec. The counterfeiter was using a very high-end colour laser copier that was slow but excellent at copying details, and the notes were of exceptional quality.

The most common method of producing counterfeit currency involves computer-generated images and inkjet printers[6]. Today, the profile of a counterfeit operation could very well be "computer, scanner, printer." The average home computer is becoming a quality reproduction device, and graphic design and image-manipulation software is readily available at affordable prices. High-resolution inkjet printers are inexpensive, and information on how to counterfeit currency is widely available on the internet. The advances in computing technology have increased the choices available to counterfeiters across the world, as increased quality, decreased cost, portability and ease-of-use become the benchmarks for success in the electronics market. Computers and scanners are user-friendly, but sophisticated enough to produce high-quality counterfeits.

Counterfeiters in Canada, amateurs or otherwise, tend to focus on the "Birds of Canada" series or the original "Canadian Journey" series of banknotes, as they have fewer security features and are relatively easy to reproduce. The new "Canadian Journey (stripe)" series of notes tend to be done by the well-organized, well-financed groups who have access to high-powered equipment and spend the time learning how to replicate the newer state-of-the-art security features.

The security features of the "CJ (stripe)" series have thus eliminated the hobbyists, but professionals have found a way to counterfeit these notes. The new security features require more effort to replicate.

To counteract the counterfeiting surge Canada experienced over the last decade, the Bank of Canada, through its participation in the Central Bank Counterfeit Deterrence Group, engaged in the design and implementation of several standardized anti-counterfeiting technologies.

5 Toner technology for a copier uses the electrostatic transfer of toner (a dry plastic powder) to paper, resulting in an image that rests on top of the paper's surface. Multi-colour, or "polychrome," copiers use a combination of black, cyan (light blue), yellow and magenta toners, while monochromatic copiers use single colour toners (i.e. black, brown, blue, red).

6 Inkjet printers spray tiny droplets of ink from the printer's head. The ink droplets soak into the paper fibres and form the desired image.

## Categories of Counterfeiters

1) *Amateur or Opportunistic* counterfeiters tend to be young adults who either modify a banknote to increase its financial value or use basic home- or work-based computer equipment to generate low-quality counterfeits as a prank or for casual spending purposes. The notes generated by this group tend to be easily detectable and are made at little or no cost to the counterfeiter.

2) *Hobbyist or Casual* counterfeiters are those that use home office equipment in addition to special supplies purchased from arts and crafts stores. This group differs from the amateur/opportunist group in the duration, quantity or distribution area of their counterfeits. The notes created by hobbyists tend to be medium-quality replicas that are innovative in the way in which the security features are simulated.

3) *Professional* counterfeiters are criminals or criminal groups who are often highly-skilled with graphic design software or sophisticated printing equipment. These counterfeiters have access to the resources, both technological and financial, to conduct serious printing operations. The Bank of Canada further defines professional counterfeiters as engaging in the following steps, in any combination: studies the product, selects high-quality paper, uses graphics arts software to perform image and colour enhancements, simulates the UV features, prints notes in vast quantities, simulates security features such as the Optical Security Device, uses dry embossing to simulate intaglio's tactile effect, uses an industrial guillotine to cut the notes, uses multiple printing processes to print and finish the notes, uses off-the-shelf equipment and materials, and has a distribution network or sells their product to criminals.

# Historical Perspective

Counterfeiting of Canadian currency was not a significant problem prior to 1992. In the 1970s and 1980s, Canada was a hub of U.S. currency counterfeiting; American banknotes were monocoloured, in contrast to the colourful Canadian bills, making them much easier to counterfeit using the copiers and printers of the time. Canon Inc. made advancements in polychrome (colour) photocopying in the 1990s, and counterfeiters began to exploit this new technology to simulate the multicoloured Canadian banknotes.

Technology plays a key role in the evolution of counterfeiting activities. For decades, counterfeiting required considerable tradecraft skills such as engraving, photography, printing, and artistry, as well as significant resources to create passable replicas. The use of professional-quality offset[7] printing presses allowed for higher-quality printing. Counterfeiting also required a network of people to distribute and pass the counterfeit banknotes, which led to the involvement of fraudsters and organized crime syndicates. In general, the counterfeits generated through this process were either poor or excellent; the quality depended on the individuals involved, whether or not they were perfectionists, and how well the vast amount of preparation work (photography, films, colour separation etc.) had been done.

The counterfeiting scene began to change in the 1980s and early 1990s with the advent of advanced reprographic systems, high-quality and inexpensive graphics software, desktop computers and printers. The Bank of Canada responded to the technology boom of the 1980s and its increased impact on counterfeiting by developing the Optical Security Device (OSD) to defeat banknote counterfeiting on the colour copiers. The "Birds of Canada" ("Birds") series of banknotes, released in 1986, was the first series to have the expensive, colour-shifting foil square on the notes. The OSD worked well for about a decade, until counterfeiters found a way to replicate.

The late 1990s-early 2000s brought about significant change in counterfeiting methodology as the sale of home computers and imaging enhancement software, as well as inkjet printers, increased dramatically. The high quality, low price, accessibility and ubiquity of these devices made the "Birds" series vulnerable as counterfeiters learned how to exploit the new technology to their own ends. Technological advances put the means to create deceptive counterfeit banknotes into the hands of the general public, and the problem of Canadian currency counterfeiting grew over the early 2000s, peaking in 2004. From 1998-2002, circulating counterfeit Canadian currency hovered around 100,000 notes a year (value: approximately $5 million), then exploded to over 648,000 notes passed in 2004 (value: $13 million).

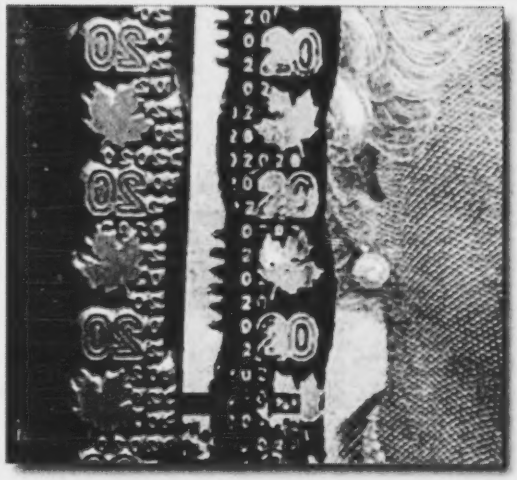
The classic example of a major counterfeit currency operation involved the $100 "Birds" series note, otherwise known as the "Windsor" note or the "Weber" note. Wesley Wayne WEBER manufactured relatively high quality counterfeit $100 banknotes that were first detected in Toronto, Ontario beginning in June 2000. Over the next year, notes also surfaced across the rest of Ontario, Quebec, Detroit, U.S. and London, England.

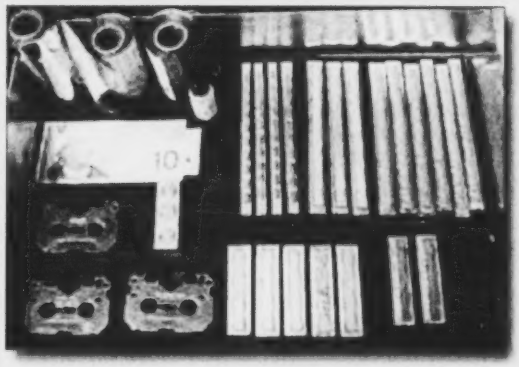
7 Offset printing is a technique that transfers ('offsets') an inked image from a plate to a rubber blanket, then to the printing surface. This type of printing allows for consistent high-quality images, and is typically used for high volume commercial printing.

As the Canadian economy was inundated with counterfeit $100 banknotes, refusal notices appeared in almost 15% of retailers in the Windsor-Toronto-Montreal corridor, and $50 and $100 notes were turned away across the country. As of September 2007, almost $7.68 million worth of Weber's counterfeits had entered into circulation.

The Bank of Canada released a new series of banknotes, the "Canadian Journey" (CJ) series, in $5 and $10 denominations, in 2001. These new notes had very few security features, and quickly became popular with counterfeiters. The Bank then launched the "Canadian Journey (stripe)" (CJs) series in 2004, which introduced additional security features such as the holographic stripe, security thread, see-through number and microprinting, amongst others. Economic integrity is a strategic priority for the RCMP, and Integrated Counterfeit Enforcement Teams (ICETs) were created in Montreal, Toronto and Vancouver to add to the law enforcement resources dedicated to stopping the crime. The ICETs, established in 2006 and officially launched in May 2007, are a key component of the RCMP National Counterfeit Enforcement Strategy (NCES), which includes Regional Coordinators, Divisional Coordinators and outside police forces in an integrated approach to combating counterfeit currency. The NCES also includes an active partnership with the Bank of Canada, which conducts public awareness and education campaigns to assist in counterfeit prevention. The combination of better security features, increased law enforcement and education/awareness campaigns has led to the significant decline in currency counterfeiting in Canada since 2004.

**Counterfeit Foils and Dies**



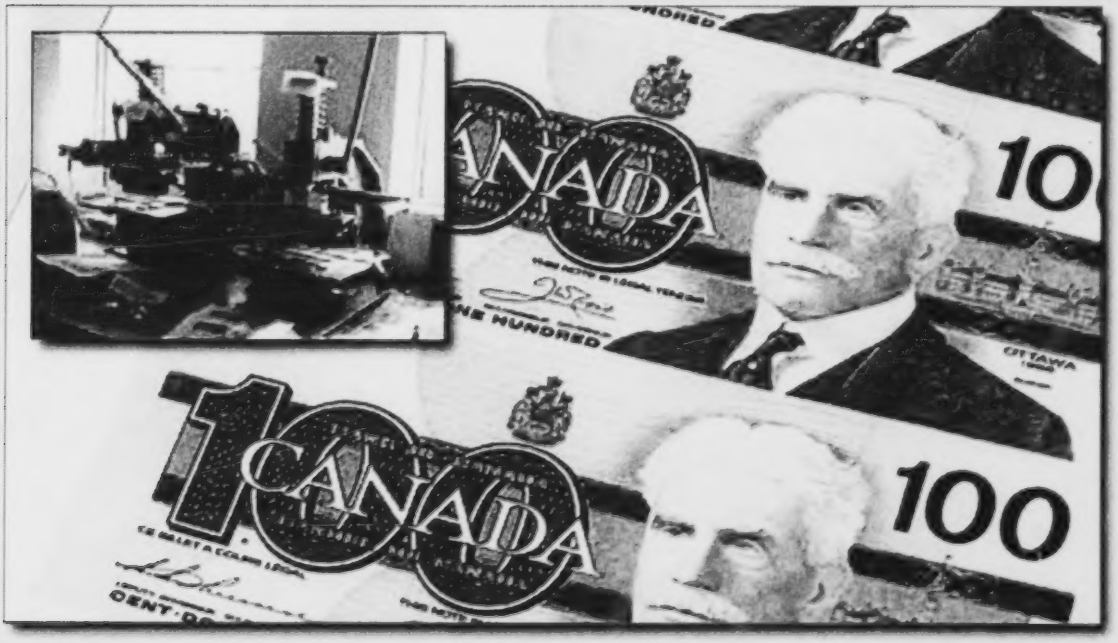


## The Wesley Weber Case

Wesley WEBER's organization was based primarily in Windsor, and at a cottage in Lakeshore, Ontario. The group consisted of four core members, with a variety of associates. WEBER and Anthony CAPORALE, a marihuana grower, were the leaders of the group, while Dustin KOSSUM and Ryan HODARE were hired help who were paid $150 an hour. WEBER was a self-taught computer mastermind who had spent years tinkering with banknotes to perfect the simulated images and security features. These skills earned him a conviction for cheque forgery in 1997, and another for counterfeiting $10 and $20 notes in 1999.

WEBER used a ring of associates to pass the counterfeits, and the group quickly became greedy and spent the counterfeits recklessly. WEBER was arrested in October 2000 for passing counterfeit at an auto parts supplier, but was released on bail six days later. He quickly determined that self-distribution had been poorly conceived, and sought out a former associate who had both legitimate and illegitimate business interests to assist him with distribution.

WEBER moved his portable printing operations around to a half dozen sites, and police raided a marihuana-grow operation he was running near Sarnia in February 2001. During the raid, police seized CDs that contained digital images of the $100 notes WEBER had been working on. WEBER moved operations to a rented cottage in Lakeshore to try to evade police surveillance. Despite the attention from police, his spending habits continued. He bought vehicles, furniture, vacations and more sophisticated counterfeiting equipment. The group was printing up to $20,000 a day at the Lakeshore cottage. Investigators were able to place GPS transponders on WEBER's vehicle, and determined that the Lakeshore cottage was a potential printing plant. Police rented the property next door and used it as an observation post. In July 2001, WEBER's group arrived at the cottage to print an order for their distributor and was caught in the act. Almost $234,000 in counterfeit notes was seized, in various states of completion, and there were enough supplies to print $6.6 million more. WEBER pled guilty in August 2001, and received a five year prison sentence, while CAPORALE, KOSSUM and HODARE all received two year sentences.



# Regional Overview

## Pacific Region

British Columbia accounted for 16% of the counterfeiting activity in Canada in 2006. From December 2006 through February 2007, the RCMP dismantled three major counterfeiting rings. The vast majority of counterfeiting is done on inkjet printers, and there have been no offset-printed counterfeits over the last few years. The preferred bill to counterfeit remains the $20 note.

There is a lack of information and intelligence linking organized crime (OC) to counterfeiting in British Columbia. There is some indication that organized crime groups with origins in Eastern Europe are involved in counterfeiting on a small scale, and there have been seizures of counterfeit from OC groups of Asian origin and of unknown origin linked to Indo-Canadian OC in the province.

Most individuals involved in counterfeit currency are those who sell it and use the proceeds to support their drug habits. Methamphetamines are often used as a "barter drug."

Counterfeit American currency is passed relatively frequently by Canadian criminals during peak tourist season, particularly in Vancouver. This coincides with reduced scrutiny by retailers who anticipate an influx of US currency during these times.

A major investigation in 2003-2004 targeted the 1975 "Scenes of Canada" series $100 notes that had been passed by individuals who had outstanding charges for possession of counterfeit currency. The notes had been produced locally in the Lower Mainland, and were of relatively high quality. This group of counterfeiters was of key importance as notes of similar high quality had hitherto been produced in Ontario and Quebec. The counterfeit currency associated with this investigation added up to approximately $2.3 million. Over 115 subjects were linked to the manufacture, possession and uttering of these notes. This case represented approximately 20% of the $13 million worth of counterfeit banknotes passed or seized by police across Canada in 2004.

Many of the targets of that investigation went independent after the arrests in 2004, finding other suppliers or manufacturing counterfeit notes on their own. Some of them moved to other provinces, and passed or sold notes across Western Canada as a means of financing their living expenses. A distribution pattern following major highway routes is not uncommon.

A May 2007 investigation targeted an individual from Vancouver, who had been making counterfeit currency. The individual used his network of drug-addicted petty criminals to distribute the counterfeit notes throughout British Columbia. The "Birds" series and the "CJ(stripe)" $20 and $50 notes were the mainstay of this counterfeiting operation, but $1000 "Birds" notes were also being produced. The notes had been manufactured at the suspect's residence, using a very labour-intensive process that involved sending the notes through an inkjet printer multiple times. The individual was also forging bus passes, cheques, parole IDs, passports, etc. The suspected pled guilty to all charges, and has stated that they intend to return to counterfeiting upon release from prison.

Another major investigation focused on a counterfeit currency/marihuana grow operation in the Lower Mainland. The targets of this investigation were also involved in identity fraud, credit card fraud, and stolen vehicles. The targets had long been drug abusers who turned to crime to support their habits.

Counterfeiters in the Pacific Region demonstrate typical counterfeiter behaviour, from drug abuse and involvement in other criminal activity, to repeat offences for counterfeiting crimes. They tend to operate in shared commodity circles, with counterfeit acting as a token of exchange for other illicit goods.

## North West Region

The North West Region accounted for approximately 3-4% of all counterfeiting activity in Canada in 2006. There has been a significant drop in counterfeits in the North West Region since 2004, and while Alberta sees more than Manitoba or Saskatchewan, passing and seizures in this region pale in comparison to the activity in Ontario, Quebec and British Columbia. In 2005, 37,317 counterfeit notes were passed and seized in the Region; this number dropped to 18,829 in 2006. The Region is more of a distribution hub than a production centre. Typically, counterfeit currency seizures take place in the context of other criminal activity such as identity fraud or drug offences. In some cases, the counterfeit currency becomes an exchange commodity for other commodities in a free product exchange.

Calgary has the closest ties to organized crime in the North West Region, while Edmonton sees primarily no-case[8] counterfeits. Edmonton has seen a 50% drop in counterfeiting since 2005, and there appears to be a trend towards criminals moving into other areas of crime, particularly credit and debit card fraud.

One of the targets from the 2003-2004 RCMP "E" Division counterfeit currency investigation began printing counterfeit notes in Calgary in 2004. The individual was arrested for printing U.S. currency in hotel rooms using a portable print shop. Forged identity documents and other imagery for counterfeiting currency were found on a laptop computer in the hotel room. This individual was arrested again in July 2007, and it is alleged that they had been printing thousands of counterfeit U.S. banknotes.

In Manitoba, counterfeiting activity centres on Winnipeg. An independent criminal organization of 16 members manufactured and distributed over $90,000 of counterfeit Canadian currency. The group had been contracting with legitimate companies to obtain their supplies. The group was also allegedly receiving direction from other criminal organizations with regards to production runs of counterfeit notes. This group was persistent in its involvement with currency counterfeiting. Each time key members were arrested and made bail, they would regroup and set up their operation in a new location. Some group members were users of crystal methamphetamine and many were also involved in identity fraud. Since the arrest of the group's ringleader in 2005, counterfeit circulation has dried up in Winnipeg.

One of the members of the aforementioned criminal organization works largely independently, and appears to have been a mentor/instructor for the group. This individual has had ties to other criminal organizations, and typically sells or trades the counterfeit bills that are produced rather than spending them. This individual is highly skilled with computers, and has intimate knowledge of computer forensics. Additionally, this suspect is both a user and a trafficker of crystal methamphetamine.

A couple was arrested in Winnipeg in the summer of 2006 for counterfeit currency possession. They were based in Hamilton, Ontario and traveled to Winnipeg to distribute counterfeit currency. It is believed that they were connected to or operating on behalf of a larger group. When the pair was arrested, $16,000 in high-quality $100 notes were seized. There was enough foil ribbon to manufacture $70,000 more.

Winnipeg Police Service reports that smaller independent groups or individuals are becoming a larger problem in the area. Most are amateur producers, without specific skills or distribution networks, who make banknotes and spend them in a localized area.

## Ontario

Counterfeiting in Ontario represented almost half (44%) of the nation-wide activity in 2006. The Greater Toronto Area (GTA) is the centre of the majority of the counterfeiting operations. Organized crime is involved in counterfeiting both Canadian and American currency. Outlaw Motorcycle Gangs (OMG), street gangs and large-scale organized crime are involved in the purchase and distribution of counterfeit currency.

One of the largest-ever counterfeit operations was dismantled in Toronto in June 2006. Over $9 million in counterfeit currency was attributed to this sophisticated counterfeiting operation. This group's activities had a nation-wide impact, with merchants victimized coast-to-coast. Members were involved in other criminal activities

8 A "no-case" or "no-history" counterfeit note is one to which no suspect can be linked, or there is not enough evidence to pursue the matter in court.

as well, including offences relating to drug trafficking, payment card fraud, identity theft, stolen property, and running an automobile chop shop. The group also had contacts working in financial institutions stealing customer profiles.

The targets of this massive investigation produced counterfeits of the "Canadian Journey (stripe)" series of notes, in the $10, $20, $50 and $100 denominations, and were endeavouring to begin production of U.S. currency. Their distribution network extended to British Columbia, and there was significant comingling and trading for other illicit commodities such as payment cards and identity documents.

Metro Toronto Police's Fraud Squad targeted a $3.7 million counterfeiting operation in the GTA starting in October 2003. High-quality "Birds of Canada" series $20 notes and "CJ" series $10 notes began appearing in Ontario and Quebec, and there had been seizures of similar notes in Western Canada. These notes had been created using high quality paper, a manual hot foil-stamping machine, and airbrushing equipment. What made these notes particularly unique was that they had been die-cut, unusual considering bank notes are rectangular and relatively easy to partition. The investigation concluded in December 2006 with the conviction and sentencing of several Bulgarian OC targets.

A large percentage of counterfeit activity occurring in 2005-2006 can be attributed to counterfeit notes associated with a Peel Regional Police investigation. A total of 40,000 notes were associated with this project, totaling a direct economic loss of approximately $1 million. In the summer of 2005, Peel Regional Police were investigating a series of bank robberies attributed to an organized crime group of Sri Lankan origin that was also implicated in a sophisticated counterfeiting scheme. Another organized crime group, linked to criminal networks with origins in the Caribbean, was distributing counterfeits to the Sri Lankans, who in turn recruited girls in shopping malls to utter the counterfeits on their behalf. Peel police arrested all the distributors in February 2006.

The notes involved in this project were 2004 "Canadian Journey (stripe)" series denominations. As well, images discovered on a seized computer were similar to ones discovered in the Metro Toronto Police investigation, indicating a relationship between these two groups. This also suggests that the images of counterfeit banknotes have become a commodity in and of themselves.

## Quebec

A third of counterfeit notes were passed and seized in Quebec (32%) in 2006, with the majority of occurrences in major metropolitan centres. As of September 2007, Quebec represented 44% of the counterfeiting activity in Canada. The majority of the counterfeit currency production and distribution in the province is done by individuals working alone rather than by organized crime groups.

One significant counterfeiting operation produced over $1.1 million worth of high-quality $20 and $50 banknotes on a colour photocopier. The distribution network involved mostly youth, who sold the counterfeit notes at raves and at the street-level, selling drugs and offering the bills at the same time. This group had members involved in a legitimate printing business on the side, and used three offset presses for finishing the notes. One offset press was dedicated to planchettes and another to embossing. Such use of offset presses for finishing the notes is a significant trend.

A new trend surfaced in September 2006, with high-quality counterfeit $1 and $2 coins hitting the market. Another set of lower-quality counterfeit $2 coins appeared in December 2006. This is a particularly interesting trend, as the production costs associated with coin manufacturing are quite high compared to the costs of printing counterfeit bills. Given these elevated production costs, in order to make coin counterfeiting a profit-making venture, a vast quantity of coins would have to be manufactured and put into circulation.

Many counterfeiters in Quebec are tied into credit card fraud, as credit cards are more lucrative if one is skilled with and has access to the technology. Numerous organized crime syndicates are heavily into credit card fraud in the province. While these groups are involved in payment card fraud, most are not involved in narcotics the way counterfeiters are involved with methamphetamines in British Columbia. Counterfeiters also tend to be involved in counterfeit passports, drivers' licences and the distribution of contraband cigarettes.

## Atlantic Region

The Atlantic Region of Canada does not have a significant counterfeit currency problem, and accounted for less than 2% of counterfeiting activity in the country in 2006. There have not been any sophisticated plants or distribution schemes in the region, but Atlantic Canada does experience possession and uttering offences, most recently a swath of counterfeit $5 notes being passed in New Brunswick.

Prince Edward Island sees its population — and hence its petty crime rate, including counterfeits — increase dramatically over the summer months. Nova Scotia, particularly Halifax, is a destination of choice for the uttering of counterfeit currency on the East Coast. Most uttering occurs at retail outlets, gas stations, restaurants and bars.

New Brunswick is primarily a conduit for counterfeit currency making its way from Montreal to Halifax. The RCMP's "J" Division has the New Brunswick Counterfeit Taskforce, with two full-time employees who coordinate all 12 RCMP districts in the province. All counterfeit incidents are reported to the Taskforce within 24 hours, and these incidents are mapped to determine if there is a trend. If a trend is demonstrable, the Taskforce notifies likely 'next targets' and has quick-start packages available to assist responders. The Taskforce is focused on intelligence gathering, and has had a great degree of success.

**Coin Counterfeiting Operation in Quebec**

# U.S. Currency

Canadian criminals continue to produce and pass counterfeit U.S. banknotes. While British Columbia and Alberta see some counterfeit American currency, there were several major seizures of quality product in the first six months of 2007. There was a March 2007 seizure of almost $540,000 USD worth of counterfeit in Gatineau, Quebec. Gatineau Police dismantled the significant counterfeit plant that had been producing primarily US$100 notes, but also Canadian $100 "Birds" series bills.

A British Columbia investigation targeted a West African counterfeit currency distribution operation. The criminal organization was running a very sophisticated distribution network that received packages of U.S. currency that had been manufactured in Africa, and located potential passers through online chat rooms. The group passed counterfeits in BC casinos and high-end retail stores. The counterfeits were washed $1 bills.

It may be too early to tell, but there is a possibility that less sophisticated counterfeiters may be resorting to counterfeiting American currency rather than attempt the new "CJs"series. This may be a way for the less organized, smaller-scale counterfeiters to keep producing in response to the difficulty of reproducing the "CJs" security features.

# Organized Crime Involvement

Some organized crime groups have adapted their structure to facilitate the production and distribution of counterfeit currency. Many of these groups operate across jurisdictions, both within Canada and internationally. This complicates investigations into counterfeit operations and decreases the chances of detecting their activities.

Most organized crime involvement in counterfeit currency is based in the major metropolitan centres of Canada, as counterfeit has to be sellable in high volumes in order to make a profit. The larger cities provide both a market and the anonymity craved by counterfeiters. Counterfeit currency is also related to many other illicit market commodities such as forged payment cards, weapons, drugs, stolen vehicles, identity documents. Some organized crime groups are involved in the entire gamut of crimes. Organized crime groups such as the Hells Angels and the Italian mafia tend to be involved in the distribution of counterfeit currency rather than in production. Criminals involved in large-scale counterfeit production operations tend to fall under the Criminal Code definition of a "criminal organization."

Some of the decline in counterfeit currency over the last few years has likely been related to the boom in credit/debit card fraud. Organized criminals are finding payment card fraud to be the path of least resistance, with lower risk, lower time and resource consumption, and a much larger payoff. Organized crime felt the pressure of the increased law enforcement and Bank of Canada focus on counterfeit currency in 2004, and appears to have shifted to payment cards or identity documents as their commodity of choice.

For the OC groups who remain involved in currency counterfeiting, building a reputation as a "professional," as one who is noted for their craft and sought after for their skill, is a key factor in their success and continuation.

# TRENDS

There is a trend towards hobbyist counterfeiters shying away from the "CJs" series of notes and continuing to manufacture the "Birds of Canada" series. That said, the "Birds" series notes are becoming less common due to their gradual withdrawal from circulation as new series are introduced. Consequently, cash handlers look more closely at these notes when they are passed as many are unfamiliar with them, resulting in counterfeit "Birds" series being more likely to be caught before entering the financial system. If amateurs or hobbyists do make attempts at the "CJs" series, they are often quite poor. Hobbyist counterfeiters are also switching commodities and moving into credit/debit card fraud as the new banknote security features dissuade them from attempting to counterfeit banknotes. While the security features of the "CJs" series have made an impact on the amateur or hobbyist counterfeiter, technology remains accessible and inexpensive enough that organized criminals continue to take an interest in replicating the newest series of Canadian banknotes. As technology improves, organized crime syndicates will be able to duplicate the security features more easily, and counterfeiting could become a resurgent issue as technology catches up with criminal will and creativity.

According to recent plant suppressions, most counterfeiting operations are still residence-based, with the occasional hotel room or industrial site used as a printing plant. Several targets have had traveling counterfeit factories, and considering the accessibility and mobility of laptop computers, scanners and inkjet printers, this is an unsurprising trend. The decline in the use of offset printers is likely as much a lack-of-mobility issue as a lack-of-skill issue for counterfeiters. There is a dying breed of professional offset printers involved, while highly-skilled, self-taught computer users are commonplace.

Today's typical counterfeiter is homegrown, skilled with computers, and has a quasi-reliable network of associates, often part of a drug circle, who they use to spread their wares.

Counterfeiters tend to be involved in some other criminal activity as a first step and then turn to counterfeiting currency as a way to earn money (by selling it) or to purchase goods (by uttering it). The exception to this statement is youth who print one-off counterfeit notes as a prank. Property crime is a typical start. Additionally, many counterfeiters are typical fraudsters who like to boast about their skills and tend to hoard things. Many also display greed and sociopathic tendencies, viewing counterfeiting currency as a victimless crime.

Counterfeiting of currency is rarely a stand-alone crime, and the multi-commodity nature of counterfeiting rings is a definite trend. It is rare to find a commercial crime offence such as identity fraud, payment card fraud, account takeovers or counterfeit currency without some other commercial crime offence also taking place. Counterfeit currency is typically just one commodity that circulates in the same orbit as drugs, identity documents or other counterfeit goods. For example, in the North West Region, methamphetamine users are involved in drug offences, credit card crimes, counterfeiting and identity theft. This trend indicates the need to focus on the individuals and groups involved in the crime rather than on the specific commodity.

There does not appear to be any particular trend in counterfeit currency circulation with regards to holiday seasons or tourist events. The North West Region has a fairly random counterfeit distribution pattern, with no obvious increase around the Calgary Stampede or Christmas holiday. Vancouver sees a slight increase in the counterfeits passed during the summer season, while credit and debit card fraud soar at Christmas time. Essentially, there is no significant pattern as to the passing of counterfeit currency. Vancouver experiences an increase in counterfeit American currency around U.S. holidays, as retailers expect to see more American cash circulating.

# OUTLOOK

Counterfeit currency in Canada has been in significant decline since its peak in 2004. This is likely due to several factors, from the creation of the National Counterfeit Enforcement Strategy to the additional security features on the "Canadian Journey (stripe)" series of banknotes to increased education and awareness campaigns. That said, at some point in the future, there may be a confluence of a few factors, namely excellent high-tech equipment and lower production costs, that will interest a high-level criminal group with skilled members and a sophisticated distribution network in place. This convergence could result in a highly-deceptive note that may well have Weber-like consequences for the Canadian economy.

## Technology

Modern technology has led to entirely different types of counterfeit threats. The continued availability and increased accessibility of high-quality colour copier and scanner-printer combinations over the next five years may pose a significant threat to Canadian currency. Most casual counterfeiters, until recently, have focused on reproducing the visual appearance of banknotes rather than on perfecting the tactile properties. Emerging technology is able to extend beyond the production of imagery to actually simulating or duplicating the tactile and other non-visual features. Additionally, crafting supplies such as specialty inks and foils are becoming more commercially available and can provide counterfeiters with high-quality means to duplicate the look and feel of banknotes. The success of digital photography has helped to drive the advancement of digital printing technology, and within ten years, amateurs will be able to duplicate most two-dimensional images.

## Criminals

Independent, amateur counterfeiters pose the most diffuse threat to Canadian currency, given that their activities are enabled by affordable, advanced reprographic and digital technology, while the more daunting threat remains the involvement of organized crime in large-scale operations. If counterfeit currency becomes endemic to the large organized crime groups, those with experience circumventing the legitimate economy and hiding their activities, there could be a surge in counterfeit currency activity. Additionally, methamphetamine users are perfect for the counterfeiting industry, as the stimulant effects of the drug increase alertness and stamina required to create the imagery, print and finish counterfeits. Not only does the drug keep its addicts interested in ongoing, repetitive tasks, but the resulting counterfeits can be bought and sold to generate funds to continue their habit.

It is also possible that counterfeiters could adapt their skills to forge identity documents, visas, and passports should they be approached to do so. Counterfeiters may also be recruited into terrorist financing, as many skills are transferable. The counterfeit passport market is particularly lucrative, as fraudulent documents are costly and can be used frequently.

## Location

The large urban centres will remain the hubs for production and distribution of counterfeit currency. Counterfeiters continue to require locations that experience a high volume of cash transactions and in which the criminals have a low risk of being identified. Criminal organizations prefer the larger cities for these reasons, while individual counterfeiters may be the ones contributing to any increase in smaller urban regions. For all intents and purposes, this is a matter of scale of operations. The smaller centres remain popular places to pass counterfeit notes, but these smaller centres tend to be grouped around the larger areas (i.e. Vancouver-Burnaby, Toronto-Hamilton, Montreal-Laval). In Manitoba, for example, almost all counterfeiting activity takes place in Winnipeg and does not extend out to Brandon or other smaller cities. The picture is different in Ontario, however. The GTA encompasses such a significant area with many smaller centres surrounding it (i.e. Oshawa, Waterloo, etc.) and counterfeit does trickle down to London, Windsor and up to Kingston and Ottawa. These smaller cities, however, experience counterfeiting problems that are minute compared to the activity in the GTA.

While the patterns of counterfeiting have not changed dramatically over time, there could be a shift to smaller centres for production as the "displacement theory"[9] predicts. With the ICETs' work towards suppression in BC, Ontario and Quebec, it is entirely possible that counterfeit currency plants will appear in more remote areas as they are pushed out of the urban core. In order to distribute the counterfeit notes in any significant quantity, however, they would have to be taken "on the road." As such, any shift would likely be to printing in small centres in close proximity, along a major route, to a large centre. The "know your customer" ideology remains strong in smaller centres, and suspicious activity likely draws more attention, including media attention, in these areas, thus shortening the timeframe in which counterfeiters can successfully utter their notes.

## Payment Card Fraud

Over the last three years, counterfeit currency has decreased from a $13 million/year (2004) problem to a $4 million/year (2007) problem in Canada. Conversely, credit and debit card fraud has ballooned over the same time period, and is now an almost $400 million/year crime. Organized crime groups looking to make a profit have become more involved in credit/debit card fraud, which is significantly more lucrative than counterfeit currency. The bulk of this activity takes place in the GTA, as well as the metropolitan hubs of Montreal and Vancouver, just as these major cities are home to the bulk of counterfeit currency operations. It is reasonable to conclude that the decline in counterfeit currency is a result of the boom in credit/debit card frauds, as organized crime follows the path of least resistance for larger payoffs and less risk.

When the new chip-and-pin cards come into service in autumn 2007 (as a Visa pilot project in Kitchener-Waterloo), they may have a temporary, negative impact on organized crime's involvement in payment card fraud. This could potentially result in displacement of fraud activity and a resultant spike in counterfeit currency. We may be witnessing a "calm before the storm", as criminals involved in commercial crime move within the envelope of payment card fraud, identity theft, and other counterfeiting activities. That said, credit cards do require more effort to ensure a profit, while passing counterfeit currency provides an immediate payoff. Counterfeit currency may become a considerable problem once again, particularly as technology continues to improve and elements of human creativity, and audacity, continue to test the technological boundaries.

9 The "displacement theory" suggests that when enforcement activity increases against a particular crime in one area, the criminals will shift their operations to a neighbouring area.

# Conclusion

This assessment demonstrates that counterfeit currency remains a commodity of value in the world of organized crime. Technological advances will continue to facilitate the creation of legitimate-looking banknotes. The investigations presented in this project offer a snapshot of major cases from 2004-2007, which collectively suggest that the efforts of law enforcement and the Bank of Canada have resulted in the almost complete elimination of hobbyist counterfeiters from the production phase of counterfeit currency. The potential for another increase in counterfeit currency in circulation is limited by the criminals' ability to distribute the notes rather than their ability to produce them. The threat today stems from the organized, sophisticated counterfeit syndicates that exploit technology and have networks in place, often from their involvement in other commodity circles, to dispense their product. There is risk that counterfeiter expertise could be transferred to the production of fraudulent identity documents such as passports, or that the counterfeiters may be assisting with the financing of terror.

## Counterfeit Currency in Canada

Appendices

# "Scenes of Canada" bank note series, 1969-1979

# "Birds of Canada" bank note series, 1986

# "Canadian Journey/Canadian Journey (stripe)" bank note series, 2001/2004

# Security Features of the Canadian Journey (Stripe) Series of Bank Notes

© Bank of Canada / Banque du Canada

1. ***Holographic Stripe***
   Tilt the note, and brightly coloured numerals (5) and maple leaves will "move" within the shinny, metallic stripe. There is a colour-split within each maple leaf.
2. ***Watermark Portrait***
   Hold the note to the light and a small, ghost-like image of the portrait appears to the left of the large numeral (5).
3. ***Windowed Colour-Shifting Thread***
   Hold the note to the light, and a continuous, solid line appears. From the back of the note, the thread resembles a series of exposed metallic dashes (windows) that shift from gold to green when the note is tilted.
4. ***See-Through Number***
   Hold the note to the light and, just like two pieces of a jigsaw puzzle, the irregular marks on the front and back will form a complete and perfectly aligned numeral 5.

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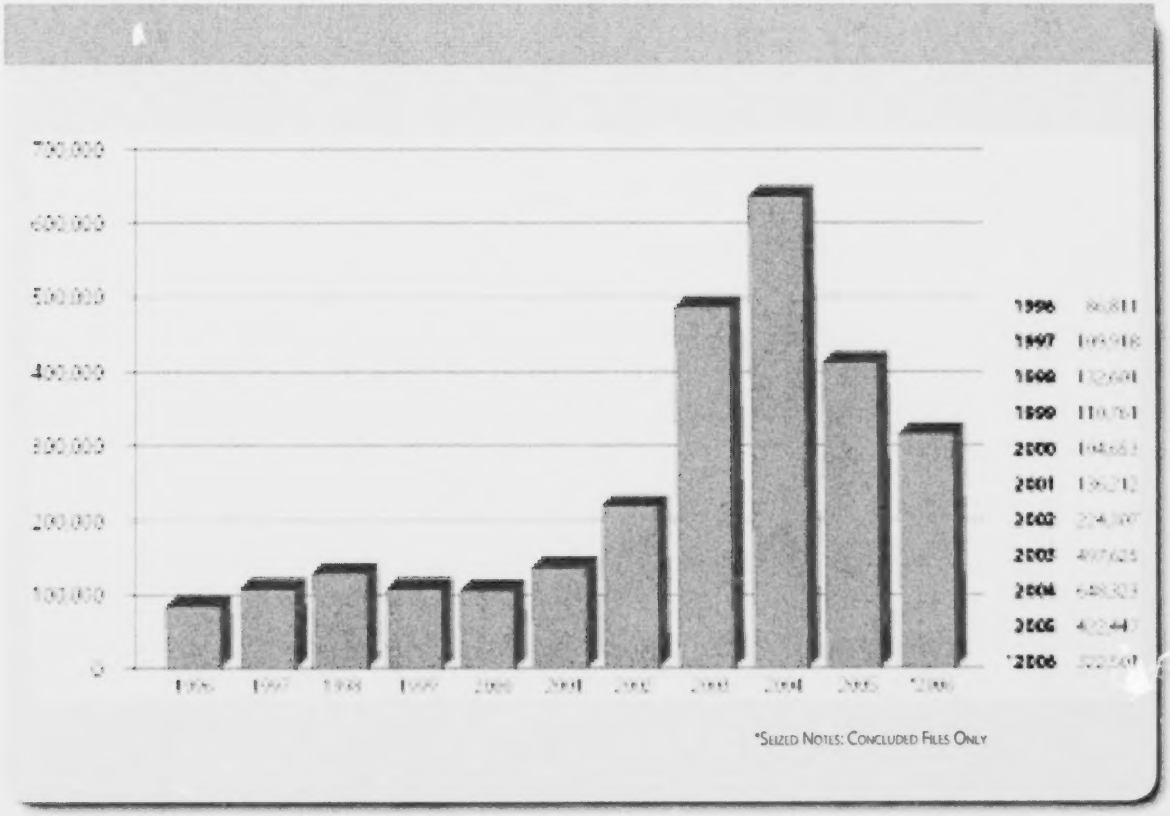
1. ***Holographic Stripe***
   Tilt the note, and brightly coloured numerals (20) and maple leaves will "move" within the shinny, metallic stripe. There is a colour-split within each maple leaf.
2. ***Watermark Portrait***
   Hold the note to the light and a small, ghost-like image of the portrait appears to the left of the large numeral (20).
3. ***Windowed Colour-Shifting Thread***
   Hold the note to the light, and a continuous, solid line appears. From the back of the note, the thread resembles a series of exposed metallic dashes (windows) that shift from gold to green when the note is tilted.
4. ***See-Through Number***
   Hold the note to the light and, just like two pieces of a jigsaw puzzle, the irregular marks on the front and back will form a complete and perfectly aligned numeral 20.

# Total Number of Canadian Bank Notes Passed and Seized



RCMP Criminal Intelligence **Project Sandstone**

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